REFORMING THE BUDGET PROCESS

One reason the Federal Government's major entitlement programs are difficult to control is that they are designed that way. A second is that current congressional budgeting provides no means of identifying the long-term effects of near-term program expansions. A third is that these programs are not subject to regular review, as annually appropriated discretionary programs are; and as a result, Congress rarely evaluates the costs and effectiveness of entitlements except when it is proposing to enlarge them.

Nothing can substitute for sound and prudent policy choices. But an improved budget process, with enforceable limits on total spending, would surely be a step forward. This proposal calls for such a reform.

THE FUNDAMENTAL PROBLEM OF ENTITLEMENT SPENDING

Entitlement spending has become an increasingly dominant part of the Federal budget over the past several decades. As Congressional Budget Office Director Peter R. Orszag has noted:

> Spending for mandatory programs has increased from less than one-third of total Federal outlays in the early 1960s to more than one-half in recent years. Most of that growth has been concentrated in Medicare, Medicaid, and Social Security. Together, gross outlays for those programs now account for about 45 percent of Federal outlays, compared with 2 percent in 1950 (before the health programs were created) and 25 percent in 1975. (Orszag testimony to the Committee on the Budget, 13 December 2007)

Within the next 10 years, entitlement spending is projected to exceed 60 percent of the budget; and the largest contributors will be Social Security, Medicare, and Medicaid, which are growing faster than the economy.

For the purposes of current budget rules and conventions, entitlement spending is projected to grow according to the formulas established in permanent law, regardless of the rate of growth and whether the government has the means to support it. Benefits to individuals are guaranteed, so that total spending for any one program depends on factors *outside* the control of Congress – such as caseloads, inflation, and other economic and technical factors. This is a prescription for losing control of such spending. In addition, any proposal to slow the growth in this spending is characterized as a "spending cut."

In most cases, once an entitlement program is enacted, there is no additional review or approval required by Congress – it simply keeps running – and the President cannot veto an increase that arises from existing law. The only way to slow the growth in mandatory spending is through a change in law.

WEAKNESSES IN THE BUDGET PROCESS

The current Federal budget process has a short-term focus and does not systematically review the huge and growing commitment the Federal Government is making for entitlement programs. While Congress and the administration thoroughly review discretionary programs annually and this spending must be appropriated in laws annually, discretionary spending represents less than half-the Federal budget.

Although both the Office of Management and Budget [OMB] and the Congressional Budget Office [CBO] make long term projections, the current budget process lacks a comprehensive and enforceable mechanism for current law mandatory spending and its long-term impact. Current budget rules are designed to enforce discretionary spending levels on an annual basis and mandatory revenue levels over a 10-year period. Under the current process, it is difficult to make trade-offs between discretionary and mandatory spending and there is no current enforcement on spending levels beyond the 10-year period.

The current budget process uses a "baseline" to measure the budgetary impact of legislation that instills an upward bias in mandatory spending. For example, the baseline projects the automatic growth in entitlement spending that will occur under current-law formulas, regardless of whether the government has the means to finance this spending. If legislation slows the growth of spending for a program relative to the baseline, it is considered a "cut in spending."

As a result, the current budget process does not fully capture the long-term cost of these programs and shields them from changes to address their unsustainable growth. Unfortunately, Congress is more likely to take action to aggravate the problem. At best, Congress will attempt to offset the cost according to current rules that cover the 1- or 10-year timeframe, but usually uses revenue, spending gimmicks or both to offset the cost, which hides the long-term spending impacts.

PROPOSED REFORM

In their report, *Taking Back Our Fiscal Future*, a diverse group of 16 budget experts included a recommendation to reform the Federal budget process, focusing especially on Social Security, Medicare, and Medicaid. They wrote:

> We believe that these three programs must be subjected to serious periodic review and decision. Their estimated future costs must be shown clearly and budgeted in advance. If they run significantly over budget, a triggering mechanism should force the President and Congress to deal with the shortfall. This requirement would give the public and their elected representatives a chance to decide explicitly how much they want to spend on these three entitlements, how much on other priorities – such as national defense, education, and scientific research – and what level of taxes they are willing to pay to support these programs. (The Brookings-Heritage Fiscal Seminar, *Taking Back Our Fiscal Future*, April 2008)

Based on this recommendation, *A Roadmap for America's Future* establishes a binding cap on total spending as a percentage of GDP at the spending levels that are projected to result from the plan. It requires the President's budget and the CBO to make projections annually in comparison to these spending limits. It requires a comprehensive review of the long-term budget outlook every 5 years. If spending gets out of control again, and Congress fails to address the problem during the 5-year review, the proposal provides a mechanism to slow the growth in faster spending programs by no more than 1 percent, to bring spending back in line with the spending limits.

The proposal also requires a three-fifths supermajority vote in the House and Senate to raise Federal revenue above 18.5 percent of GDP.